

Message Text

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14

ACTION SS-25

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INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY PARIS

AMEMBASSY RABAT

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TUNIS

S E C R E T JIDDA 8374

EXDIS

USINT BAGHDAD VIA POUCH

CAIRO ALSO FOR ATHERTON

E.O. 11652: GDS

TAGS: PFOR, ETRD, US, SA

SUBJECT: ASSISTANT SECRETARY ATHERTON'S MEETING WITH PRINCE FAHD:
THE BOYCOTT

REF: A) STATE 297811

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B) STATE 297810

C) STATE 297842

1. SUMMARY. ASSISTANT SECRETARY ATHERTON RAISED WITH CROWN PRINCE FAHD SOME PROBLEMS BEING CREATED BY THE BOYCOTT. HE REFERRED TO SEVERAL RECENT ACTIONS SUCH AS THE FEDERAL RESERVE NOTICE TO MEMBER BANKS AND THE PENDING ANTI-TRUST SUITS AGAINST U.S. FIRMS DOING BUSINESS IN SAUDI ARABIA. HE EXPLAINED THAT BOYCOTT REGULATIONS REQUIRING U.S. COMPANIES TO, IN EFFECT, ACT AS ENFORCERS OF THE BOYCOTT IN THEIR DEALINGS WITH OTHER U.S. FIRMS RUN AGAINST LONG-STANDING U.S. LAW. WE DO NOT QUESTION THE ARABS' SOVEREIGN RIGHT TO CARRY OUT THE BOYCOTT; THEY CANNOT HOWEVER, EXPECT U.S. COMPANIES TO ACT AS ENFORCERS. HE URGED PATIENCE AND COOPERATION FROM THE SAG SO THAT WE MIGHT OVERCOME POTENTIAL PROBLEMS IN OUR RELATIONS. FAHD LISTENED CALMLY. HE REPLIED THAT SAUDI ARABIA FAVORS ABANDONING THE BOYCOTT BECAUSE IT IS INEFFECTIVE. IF IT WERE A SAUDI-U.S. ISSUE IT WOULD BE QUICKLY RESOLVED. BUT THERE ARE 20 ARAB COUNTRIES SOME OF WHICH OPPOSE GOOD SAUDI-U.S. RELATIONS.

U.S. ANTI-BOYCOTT ACTIONS WILL BE PORTRAYED BY THEM AS ANTI-ARAB AND PRO-ISRAELI. MOREOVER, THE USSR, WHICH SEEKS COMMERCIAL PENETRATION OF THE ARAB WORLD, WILL ATTEMPT TO EXPLOIT THESE U.S. ACTIONS. THE FEDERAL RESERVE ACTION CAN ONLY MEAN THAT U.S. COMPANIES AND BANKS WILL LOSE OUT TO THE COMPETITORS AND ENEMIES OF THE U.S. HE ASKED THAT THE ADMINISTRATION SEEK TO INHIBIT ACTIONS SUCH AS BRINGING TO COURT COMPANIES DOING BUSINESS WITH SAUDI ARABIA. THE RESULTING COMMOTION IN THE ARAB WORLD WILL MAKE OUR BILATERAL PROBLEMS MULTILATERAL AND HENCE MORE DIFFICULT TO SOLVE. HE URGED THAT WE WORK TO EDUCATE THE CONGRESS AND OTHERS TO THE FULL IMPLICATIONS OF THEIR ACTIONS AND THAT WE BRING ABOUT A PERIOD OF CALM IN WHICH OUR RELATIONS CAN RECOVER GOOD HEALTH. END SUMMARY.

2. DURING HIS DECEMBER 20 MEETING WITH SAUDI CROWN PRINCE, FAHD, ASSISTANT SECRETARY ATHERTON RAISED THE QUESTION OF THE BOYCOTT AND THE PROBLEMS THIS COULD CAUSE TO SAUDI-U.S. RELATIONS. HE SAID THAT THE RECENT GROWTH IN TRADE AND INVESTMENT OPPORTUNITIES IN THE ARAB

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WORLD FOR AMERICAN FIRMS HAS BROUGHT GREATLY INCREASED ATTENTION IN RECENT MONTHS TO THE SUBJECT OF THE ARAB BOYCOTT OF ISRAEL. AS A RESULT, LEGAL ATTENTION HAS BEEN FOCUSED ON THE SUBJECT. IT HAS BEEN CONCLUDED IN SOME INSTANCES THAT U.S. FIRMS, BY ADHERING TO THE TERMS OF THE BOYCOTT AND EXCLUDING BLACK-LISTED AMERICAN SUB-CONTRACTORS OR SUPPLIERS FROM TRANSACTIONS, MAY HAVE BECOME INSTRUMENT IN ENFORCING A SECONDARY BOYCOTT. THIS WOULD BE CONTRARY

TO U.S. LAWS.

3. ATHERTON SAID THAT IN THIS CONTEXT, THE CHAIRMAN OF THE FEDERAL RESERVE BOARD RECENTLY SENT A CIRCULAR LETTER TO MEMBERS OF THE FEDERAL RESERVE SYSTEM ADVISING THEM THAT THOUGH THE ARRANGEMENT MAY ORIGINATE WITH THE FOREIGN IMPORTER WHO ARRANGES THE LETTER OF CREDIT, BANKS WHICH AGREE TO HONOR SUCH CONDITIONS MAY BE VIEWED AS PARTICIPATING IN A BOYCOTT IN CONTRAVENTION OF U.S. LAWS. HE SAID THAT THE DEPARTMENT WILL BE URGING CAUTION AND A REVIEW OF THE IMPACT OF THE FRB'S ACTION, THOUGH THE EFFECT OF OUR EFFORTS MAY BE LIMITED SINCE THE FRB IS AN AUTONOMOUS AGENCY NOT UNDER THE DIRECT CONTROL OF THE ADMINISTRATION.

4. ATHERTON ALSO INFORMED FAHD OF THE LIKELIHOOD OF ANTI-TRUST ACTION AGAINST TWO FIRMS DOING EXTENSIVE BUSINESS IN SAUDI ARABIA -- BECHTEL AND LOCKHEED -- WITH THE OBJECTIVE OF ENJOINING THEM FROM ACTING AS AGENTS TO ENFORCE THE BOYCOTT AGAINST OTHER U.S. FIRMS. THESE CASES ARE LIKELY TO BE IN LITIGATION FOR SOME TIME, AND THUS ARE NOT LIKELY TO HAVE IMMEDIATE PRACTICAL EFFECT.

5. ATHERTON SAID THAT THE U.S. DOES NOT CONTEST SAUDI ARABIA'S SOVEREIGN RIGHT TO ENGAGE IN THE BOYCOTT; BUT UNDER U.S. LAW OF LONG STANDING, U.S. FIRMS CANNOT BE EXPECTED TO BECOME ENFORCERS OF THE BOYCOTT AGAINST OTHER U.S. FIRMS. WE WILL CONTINUE TO INFORM THE CONGRESS OF THE FULL RAMIFICATIONS OF PROPOSED LAWS AND OTHER ACTIONS WHICH COULD BE DETRIMENTAL TO CONTINUED DEVELOPMENT OF SAUDI-U.S. RELATIONS. AT THE SAME TIME WE URGE SAUDI ARABIA TO BE PATIENT. THIS IS A SITUATION WHICH CALLS FOR CALMNESS AND COOPERATION TO OVERCOME THE DIFFICULTIES CONFRONTING US.

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6. FAHD LISTENED TO ATHERTON'S PRESENTATION CALMLY AND WITHOUT INTERRUPTION. AT THE CONCLUSION HE SAID THAT HE WISHED TO COMMENT ON THE BOYCOTT AND THE FEDERAL RESERVE ACTION. THE BOYCOTT, HE SAID, IS NOT AN ACTION INITIATED BY SAUDI ARABIA. IT IS THE RESULT OF COMMON ARAB ACTION AND IS NOW ENDORSED BY TWENTY ARAB NATIONS. WITHIN ARAB COUNCILS SAUDI ARABIA HAS, IN FACT, BEEN MAKING AN EFFORT TO PERSUADE OTHERS THAT THE BOYCOTT IS NOT EFFECTIVE AND SHOULD BE SCRAPPED. SAUDI ARABIA WILL CONTINUE ITS EFFORTS TO HAVE THE PROBLEM RESOLVED IN THIS MANNER. HOWEVER, THERE ARE CONFLICTS AMONGST THE ARAB NATIONS, AND SOME OF THESE STATES SEEK TO END THE FRIENDLY RELATIONS EXISTING BETWEEN SAUDI ARABIA AND THE U.S. THIS FACT WILL NOT CAUSE SAUDI ARABIA TO ABANDON EFFORTS TO SOLVE THE BOYCOTT PROBLEM. BUT THE U.S. SHOULD ENSURE THAT COMPANIES DOING BUSINESS

WITH SAUDI ARABIA ARE NOT DRAGGED INTO COURT BECAUSE OF IT. THIS CAN ONLY CAUSE AN OUTCRY IN THE ARAB WORLD WHICH WILL MAKE SAUDI ARABIA'S EFFORTS MORE DIFFICULT. MOREOVER, IT WILL CREATE A SITUATION WHEREIN THE SOVIET UNION, WHICH SEEKS TO EXPAND ITS TRADE WITH THE ARAB WORLD, CAN TAKE ADVANTAGE. THOSE ARAB COUNTRIES WHICH HAVE RELATIONS WITH THE USSR WILL SEE U.S. ANTI-BOYCOTT ACTIONS AS PURELY FUNCTIONS OF THE ARAB-ISRAELI DISPUTE AND HENCE AS AN ANTI-ARAB ACTION. THIS WILL COMPROMISE THE POSITION OF THE ARAB FRIENDS OF THE U.S. IF THE BOYCOTT WERE ONLY A BI-LATERAL U.S.- SAUDI AFFAIR, FAHD SAID, IT COULD BE SETTLED IMMEDIATELY WITHOUT DIFFICULTY. UNFORTUNATELY IT IS NOT. FAHD SAID THAT, NONETHELESS, HE WILL KEEP HIS PROMISE AND DO WHAT HE CAN TO CALM THE RESULTING SITUATION WITH OTHER ARAB COUNTRIES.

7. TURNING TO THE FEDERAL RESERVE ACTION, FAHD SAID THAT HE COULD ONLY ADDRESS THIS AS A POLITICAL ISSUE SINCE HE IS NOT AN ECONOMIST. FROM THIS STANDPOINT IT SEEMS CLEARLY NOT TO BE IN THE INTEREST OF THE USG, U.S. COMPANIES OR U.S. BANKS. THE MEANING OF THE ACTION IS CLEAR: COMPANIES WILL HAVE TO OPEN LETTERS OF CREDIT WITH NON-U.S. BANKS. THE U.S. DOES NOT BENEFIT FROM THIS SITUATION NOR DOES SAUDI ARABIA. HE SAID THAT HERE ALSO IT IS IN THE INTEREST OF THE U.S. GOVERNMENT TO SEE THAT THIS DOES NOT BECOME A MAJOR ISSUE AS THIS WILL ONLY WORK AGAINST U.S. INTERESTS

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IN THE ARAB WORLD AND TO THE BENEFIT OF ITS ENEMIES.

8. FAHD CONCLUDED BY SAYING THAT WHAT WE NEED IS CALMNESS AND AVOIDANCE OF HARMFUL ACTIONS. WE NEED A BREATHER IN WHICH TO STRAIGHTEN OUT OUR PROBLEMS. HE COMPARED THE STATE OF OUR RELATIONS TO A MAN SUFFOCATING IN A HOSPITAL WHO NEEDS TO BREATHE PURE OXYGEN TO RECOVER -- THE PURE OXYGEN IN THIS CASE BEING A PERIOD OF CALM WITHOUT RANCOROUS INCIDENTS. BILATERAL PROBLEMS ARE MUCH MORE EASY TO RESOLVE THAN MULTILATERAL PROBLEMS, HE SAID. WE MUST PROCEED CALMLY TO SOLVE THEM "STEP BY STEP." IF ACTIONS CONTINUE, OUR PROBLEMS WILL BECOME MULTILATERAL AND TAKE LONGER AND BE MORE DIFFICULT TO RESOLVE. OUR MUTUAL INTERESTS REQUIRE THAT THE U.S. ADMINISTRATION EDUCATE THE FEDERAL RESERVE BOARD, THE CONGRESS, AND OTHERS TO THE NEGATIVE EFFECT ON U.S. INTERESTS OF STEPS SUCH AS THOSE RECENTLY TAKEN OR APPARENTLY BEING CONTEMPLATED.

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